

DIRECT TESTIMONY OF

DAWN M. HIPPI

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2019-281-S

**IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR
ADJUSTMENT (INCREASE) OF RATES AND CHARGES, TERMS AND
CONDITIONS, FOR SEWER SERVICE PROVIDED TO CUSTOMERS IN
ITS RICHLAND AND KERSHAW COUNTY SERVICE AREAS**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Chief Operating Officer of the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my bachelor’s degree in political science from Minnesota State University - Moorhead. Prior to my employment with ORS, I managed the financial, operations and regulatory aspects for an environmental company that provided turn-key hazardous waste consulting services for the United States Department of Defense.

In 2004, I joined ORS as a Program Specialist for the Water and Wastewater Department. I became a Director in 2007, and in 2018, was promoted to the position of Chief Operating Officer with responsibility for all ORS operational functions within the

following divisions: Energy Policy; Utility Rates and Services; Telecommunications; Consumer Services; and Safety, Transportation, and Emergency Response.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified on numerous occasions before the Commission relating to general rate cases, consumer complaints and other proceedings.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as follows:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my direct testimony is to:

- 1) Introduce the ORS witnesses who will testify on various matters regarding Palmetto Utilities, Inc.’s (the “Company” or “PUI”) rate increase application (“Application”); and
- 2) Describe ORS’s efforts, in advance of this rate proceeding, to determine the value for ratemaking purposes of the wastewater collection system serving PUI’s customers in the former Palmetto of Richland County (“PRC”) service area.

Q. WHO ARE THE OTHER WITNESSES THAT WILL PROVIDE DIRECT TESTIMONY FOR ORS?

A. The other ORS witnesses are:

- 1) **Daniel P. Hunnell II**, ORS Senior Regulatory Analyst. Mr. Hunnell's testimony will focus on PUI's compliance with the Commission's rules and regulations; PUI's service revenue calculations and adjustments; ORS's calculations for customer growth and uncollectible bad debt; ORS's recommendations for a cost of service study and a study of the feasibility of transitioning to volumetric rates; PUI's proposal to add new charges and amend tariff language; PUI's balance sheet Account 114 and ORS's recommendations for rate treatment of the regulatory liability resulting from the Tax Cuts and Jobs Act of 2017.
- 2) **Charles E. Loy**, Principal at GDS Associates, Inc. ("GDS"). Mr. Loy's testimony will focus on the proper regulatory treatment of PRC expansion fees and the PRC sewer collection system.
- 3) **David C. Parcell**, Principal and Senior Economist of Technical Associates, Inc. Mr. Parcell's testimony will focus on the current cost of capital for PUI.
- 4) **Daniel F. Sullivan**, ORS Deputy Director of Auditing. Mr. Sullivan's testimony will focus on ORS's recommendation for accumulated and excess deferred income taxes; amortization of excess deferred income taxes; and excess federal corporate income tax expense imbedded in Commission-approved rates since January 1, 2018.
- 5) **Christina Seale**, ORS Audit Coordinator. Ms. Seale's testimony will focus on the results of ORS's audit examination of PUI's Application.
- 6) **William Kleckley**, ORS Auditor. Mr. Kleckley's testimony will focus on ORS's findings and recommendations for purchased power, contract services, depreciation expense, amortization of contributions in aid of construction ("CIAC"), property taxes,

gross plant in service, accumulated depreciation, CIAC and accumulated amortization of CIAC.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE PRC WASTEWATER COLLECTION SYSTEM.

A. In Docket No. 2012-273-S Order No. 2012-960, the Commission approved the request of PRC to acquire the City of Columbia's ("City") sewer collection system in portions of unincorporated Richland County, South Carolina, and establish a service territory, rates and charges. PRC provided sewer service to over 11,000 customers and charged those customers monthly service and non-recurring charges for connection and plant expansion fees at the same rates charged by the City. In 2017, PRC was merged into PUI in Docket No. 2017-105-S, Order No. 2017-433 and the former PRC customers experienced no rate change as a result of the merger into PUI.

Q. PLEASE EXPLAIN THE STIPULATIONS ACCEPTED BY THE COMMISSION IN DOCKET NO. 2017-228-S, ORDER NO. 2018-155.

A. PUI and ORS entered two stipulations during the Company's last rate proceeding. The stipulations concern the ratemaking treatment for the sewer system assets ("PRC Assets") acquired from the City. Under the stipulations, PUI and ORS stipulated that issues related to the valuation of the PRC Assets would be addressed in a future rate proceeding and that the PRC Assets would not be recognized for ratemaking purposes in Docket No. 2017-228-S. The stipulations did not preclude PUI or ORS from taking a position on the valuation of the PRC Assets in a future rate proceeding. The Commission accepted the stipulations in Docket No. 2017-228-S and the current rates for PUI do not reflect inclusion of the PRC Assets.

Q. PLEASE DESCRIBE ORS'S EFFORTS TO REVIEW AND DETERMINE THE VALUE OF THE PRC ASSETS FOR RATEMAKING PURPOSES.

A. In accordance with the stipulations and in preparation for this rate proceeding, ORS took several steps to review, analyze and determine the value of the PRC assets for ratemaking purposes. In January 2019, ORS engaged GDS to perform an analysis to determine the value of donated PRC Assets.¹ In February 2019, ORS requested information from the City to assist in ORS's review. The City provided ORS with the accounting entries made by the City to record the sale of the sewer system assets to PRC. Exhibit CEL-6 to the testimony of ORS Witness Loy constitutes a complete and accurate copy of the accounting records the City provided to ORS in response to ORS's request. GDS issued its Report which details the investigation, analysis, observations and recommendations related to the ratemaking treatment of the PRC Assets on June 5, 2019.² PUI filed its Notice of Intent to file an application for an increase rates and charges on August 20, 2019. Witness Loy will discuss the GDS Report and its recommendations on behalf of ORS in detail in his testimony.

Q. PRIOR TO THIS RATE PROCEEDING, DID ORS AND PUI ENGAGE IN DISCUSSIONS TO COLLABORATIVELY RESOLVE THE RATEMAKING ISSUES RELATED TO THE PRC ASSETS?

A. Yes. In the time period between March 2018 and July 2019, ORS and PUI exchanged information and met in good-faith to explore the possibility of a resolution related to the valuation of the PRC Assets and, discuss other issues important to PUI, such

¹ GDS performed its analysis under a Service Agreement between ORS and GDS in accordance with S.C. Code Ann. §58-4-100.

² ORS witness Loy's Direct Testimony Exhibit CEL-2.

as the impacts of the 2017 Tax Cuts and Jobs Act. In June 2018, ORS performed a second review of the Joel E. Wood & Associates, LLC Draft Evaluation Report and various calculations provided by PUI related to estimated CIAC. In August 2018, ORS reviewed, at PUI's request, the Gannett Fleming Opinion provided to ORS on August 5, 2018. ORS issued a Request for Proposal for engineering and/or consulting services to assist ORS in analysis of the valuation of the PRC Assets in late September 2018 and GDS began its analysis in January 2019.

PUI and ORS met again in July 2019 to discuss the Report completed by GDS in June 2019. The efforts of ORS and PUI's between rate cases narrowed the issues in dispute related to the PRC Asset valuation and ratemaking treatment.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources become available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.